STATE OF MONTANA BOARD OF INVESTMENTS

INTERCAP PROGRAM

STANDARD PROGRAM DESCRIPTION AND PARTICIPATION REQUIREMENTS

The INTERCAP Program lends money to local governments for a variety of purposes. INTERCAP is a VARIABLE RATE loan program with the interest rate adjusting annually each February 16.

Eligible Projects

INTERCAP funds a variety of equipment, vehicles and improvements to property. Some examples: police cars, telephone systems, computers, road graders, boilers, water tanks, buses, roof repairs, street paving, kitchen equipment, hospital equipment, elevators, fire trucks, jail improvements, improvements for handicapped access, preliminary engineering work for water, sewer and solid waste projects. This list is by no means exhaustive. INTERCAP can be used as a line of credit to meet cash flow needs. It can also be used as a source of interim financing for other state or federal funding programs. Finally, INTERCAP can be used to refinance outstanding debt if economically advantageous.

Application and Funding Process

a. <u>Application</u> - A completed Application should be submitted to the Board.

b. <u>Approval</u> - Board staff will present loan requests for over $50,000 at a regular Board meeting (requests for under $50,000 will be considered and approved by Board staff). Upon Board approval, a Term Sheet will be forwarded to the applicant for review. The applicant has one year from the date of issuance of the Term Sheet in which to borrow the funds or the local government may be required to submit a new, updated Application.

c. <u>Funding</u> - Approximately three weeks prior to needing INTERCAP funds, the local government should call or write to Board staff notifying them of its desire to borrow funds. The staff will forward three completed sets of the loan closing documents for the local government's review and execution. Accompanying the loan closing documents will be a form of a Resolution which the local government's governing body must adopt prior to closing the loan, and a form of local counsel opinion which the local government's attorney must execute stating that the loan is legal and binding upon the local government. The local government will be required to annually appropriate funds for the payment of principal and interest as due, and a security interest in the project will be taken to the extent legally allowable.

Loan Disbursements: Invoices and Origination Costs

Invoices or certificates of completed work need to be submitted before INTERCAP loans are funded.

Origination Fee

An Origination Fee of one percent (1.0%) of the Requested Loan Amount will be added to the loan on a pro-rata basis for each disbursement.

Example:

Requested Loan Amount		$100,000.00
Origination Fee (1.0%)	1,000.00	
Total Loan Request		$101,000.00

Determination and Notice of Interest Rate Change/Loan Repayments and Prepayments

The interest rate on all INTERCAP loans changes annually on each February 16 (the Interest Adjustment Date). The local government will receive notice of the new interest rate effective for the following 12 months on approximately March 15 of each year, in the form of a new amortization schedule. This schedule will show the INTERCAP loan repayments due February 15 and August 15. Notification of payments due will be sent by the Trustee approximately 30 days prior to the due date. Prepayments will be allowed without a prepayment penalty upon thirty days notice to the Board.

General Program Requirements

All INTERCAP loans must meet the following general requirements.

a) A local government must show creditworthiness;
b) The project must be lawfully authorized by statute;
c) The loan term may not be longer than the useful life of the project;
d) State and federal permits, if required, must be obtained, usually before loan closing;
e) If a project is dependent on other revenue sources, other than from INTERCAP, such funds must be committed to the project before the INTERCAP loan funding;
f) If an environmental impact may result from a loan, the Board must comply with the state's MEPA statute; and,
g) A legal opinion regarding the loan transaction is required from the local government's attorney.

WE APPRECIATE YOUR INTEREST AND BUSINESS!
PLEASE FEEL FREE TO CALL DAVID EWER OR
GERI BURTON AT 406-444-0001 FOR ASSISTANCE

SPECIFIC INTERCAP LOAN REQUIREMENTS

INTERCAP can finance all types of debt: general obligation, general fund, revenue bonds, improvement district, and enterprise debt. The following briefly explains many of the various types of debt local governments can incur. The specific requirements and limitations of the INTERCAP Program are listed for each type.

General Fund Indebtedness

Montana cities, towns, counties and school districts have specific statutory authorization to incur indebtedness for specific purposes without a vote of the electors, subject to specific statutory requirements. These obligations are generally payable from the general fund of the local government and thus the government's ability to levy taxes for the payment of the obligation is subject to any statutory mill levy limitations that may be applicable including, in the case of cities and counties, I-105. The obligations are payable from any legally available funds of the issuer and thus would include revenues derived from sources other than taxes to the extent authorized by law. All general INTERCAP requirements apply, in addition the specific requirements for general fund loans are:

a) Eligible local governments (and enabling legislation) include: cities and towns (7-7-4101, M.C.A.), counties (7-7-2402, M.C.A.), school districts (20-9-471, M.C.A.), rural fire districts (7-33-2109, M.C.A.), rural fire service areas (7-33-2404 M.C.A.) solid waste districts (7-13-236, M.C.A.) hospital districts (7-34-2122, M.C.A.), television districts (7-13-2510, M.C.A.);

b) Maximum loan limit of $500,000 per project. Loan limit subject to local government's tax ability under I-105 (not applicable to school districts); and,

c) Loan term is limited to five years to cities/towns under 7-5-4304; 10 years to counties under 7-5-2305 and 5 years for schools districts under 20-19-471 although there is a provision for borrowing for up to 10 years for energy retrofits and 10 years for all other eligible local governments.

General Obligation Bonded Debt

General obligation debt in Montana is backed by the full faith and credit of the issuer and obligates the issuer to levy a tax, without limitation as to rate or amount, sufficient to repay the obligation when due. General obligation debt can usually only be authorized after an election has approved the bond obligation. The levy for repayment of the obligation is outside the limitations imposed by I-105. Specific INTERCAP requirements are:

a) Eligible local governments (and enabling legislation) include: cities (7-7-4201), counties (7-7-2201, school districts (20-9-4), and rural fire districts (7-33-2109);

b) Ten year loan term limit;

c) $1,000,000 loan limit;

d) Attorney General's certification; and,

e) Must be within local government’s legal debt limit.

Enterprise Obligation Debt of Cities and Towns (Primarily Water/Sewer/Garbage)

Local governments typically provide water, sewer and trash disposal services through user fees and charges. If the local government is financing equipment or improvements to a municipal utility system and intends to use revenues of the system to repay the loan, the Board will require a pledge of the revenues of the system and require certain other covenants particularly with respect to maintaining adequate fees or charges.

Revenue obligations are not secured by the full faith and credit of the issuer and do not require voter approval. Specific INTERCAP requirements are:

a) Ten year term limit;

b) $500,000 loan limit;

c) Documentation of rates and charges currently in effect and proposed;

d) Rates and charges must be set to produce net revenues (revenues less expenditures for operations) to cover debt service by a factor of 1.25 times;

e) Funding a reserve account may be required; and

f) Require parity obligation where possible and reasonable.

<u>Special Assessment Bonded Debt</u>

Special Improvement District (SID) bonds and Rural Improvement District (RID) bonds are payable from special assessments levied against the real property in the district benefitted by the improvements financed by bonds. They are not full faith and credit obligations of the city or county. Special assessments may become a lien on the property in the principal amount of the assessment. They are pre-payable in full on any payment date. SID's may also be secured by the issuer's revolving fund. Specific INTERCAP requirements are:

a) Ten year term limit;

b) $300,000 loan limit;

c) All standard SID bond requirements particularly SID creation must be satisfied;

d) City or county fund must secure SID/RID with pledge to levy for and maintain the revolving fund to maximum amount permitted by law; and

e) Staff review of all of local government's SID's and balance in the revolving fund to judge overall credit worthiness.

<u>County Water and Sewer Revenue Bonds</u>

County water and sewer districts (the Districts) are authorized to issue tax-backed revenue bonds upon approval of the property owners in the Districts. The board of directors of the Districts are authorized to impose rates and charges for services provided and to pay debt service on voted debt. If the revenues of the Districts are inadequate to meet those obligations, a tax levy equal to the deficiency shall be imposed on property in the Districts. The Attorney General has concluded that the deficiency levy is a tax not a special assessment and, thus, subject to I-105 limitation, unless the levy is levied for the repayment of voted bonded indebtedness. Specific INTERCAP requirements are:

a) Ten year term limit;

b) $500,000 loan limit;

c) Voter authorized to levy deficiency tax, if necessary;

d) Coverage test of revenues over expenditures: 125% minimum, may set higher where higher risk perceived due to delinquencies, and other revenue fluctuations; and,

e) Evidence of necessary rate hikes.

County Hospital District Debt

County Hospital Districts are special taxing jurisdictions organized for the purpose of providing county hospital facilities. The ability to tax is limited to 3 mills a year, unless the voters authorize an additional levy for 2 years. If voters authorize the issuance of bonds, or other debt, property may be levied without the limitation as to the rate or amount. Specific requirements are:

a) Bonds (requires voter approval):

   i) No greater than 22.5% of the taxable value indebtedness limitation; and,

   ii) Ten year loan term.

b) Notes (do not require voter approval):

   i) Payable only from revenues of the District, including three mill levy;

   ii) May be secured by a mortgage on property or other security. The Board will generally require this form of additional security;

   iii) 10 year term; and,

   iv) Projected revenues, including taxes, must equal costs of operating and . maintaining the hospital facilities, plus the maximum debt service on all . . . . notes.